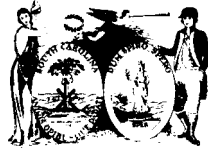


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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October 29, 2001

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Mariner Post-Acute Network
15415 Katy Freeway, Suite 800
Houston, Texas 77094

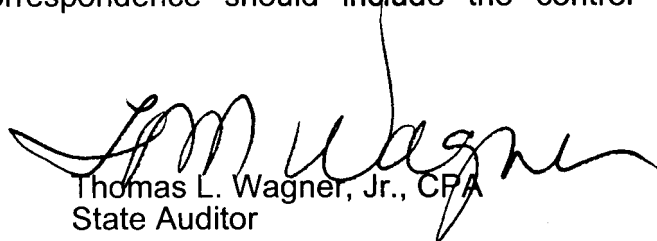
Re: AC# 3-STG-J8 – Grancare South Carolina, Inc.
St. George Health Care Center, Inc.

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.



Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**GRANCARE SOUTH CAROLINA, INC.
ST. GEORGE HEALTH CARE CENTER, INC.**

ST. GEORGE, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-STG-J8**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 1999	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 1999 THROUGH SEPTEMBER 30, 2000	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1998	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 23, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc., St. George Health Care Center, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc., St. George Health Care Center, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and Supporting accounting and Statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

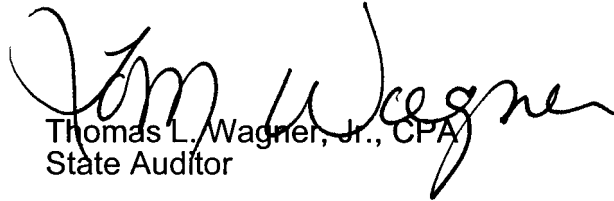
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc., St. George Health Care Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GranCare South Carolina, Inc., St. George Health Care Center, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 23, 2001

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

ST. GEORGE HEALTH CARE CENTER, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-STG-J8

	10/01/99- <u>09/30/00</u>
Interim reimbursement rate (1)	\$91.31
Adjusted reimbursement rate	<u>87.57</u>
Decrease in reimbursement rate	\$ <u><u>3.74</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

ST. GEORGE HEALTH CARE CENTER, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-STG-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.47	\$47.61	
Dietary		8.80	10.24	
Laundry/Housekeeping/Maint.		<u>7.30</u>	<u>8.89</u>	
Subtotal	\$ <u>4.67</u>	51.57	66.74	\$51.57
Administration & Med. Rec.	\$ <u>-</u>	<u>11.66</u>	<u>11.39</u>	<u>11.39</u>
Subtotal		63.23	<u>\$78.13</u>	62.96
<u>Costs Not Subject to Standards:</u>				
Utilities		2.38		2.38
Special Services		4.64		4.64
Medical Supplies & Oxygen		2.64		2.64
Taxes and Insurance		1.82		1.82
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$74.71</u>		74.44
Inflation Factor (3.00%)				2.23
Cost of Capital				7.83
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				-
Cost Incentive				4.67
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.92)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>.57</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$87.57</u>

ST. GEORGE HEALTH CARE CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-STG-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,124,526	\$ 5,899 (10) 34 (10)	\$ 11,580 (3) 1,588 (3) 3,407 (8) 4,699 (9) 257 (9)	\$1,108,928
Dietary	295,638	1,705 (10)	180 (3) 21,104 (4) 537 (7) 568 (9)	274,954
Laundry	37,093	-	-	37,093
Housekeeping	103,959	-	-	103,959
Maintenance	107,325	-	223 (3) 343 (6) 4,021 (7) 121 (9) 15,423 (10)	87,194
Administration & Medical Records	504,492	6,298 (3) 4,054 (3) 37 (6) 3,407 (8) 472 (10)	203 (7) 7 (9) 81 (9) 154,038 (10)	364,431
Utilities	74,599	-	135 (10)	74,464
Special Services	134,936	1,960 (6) 9,796 (12)	97 (9) 1,579 (11)	145,016
Medical Supplies & Oxygen	99,190	3,219 (3) 16,328 (4)	2,292 (6) 6,702 (7) 27,112 (11)	82,631

ST. GEORGE HEALTH CARE CENTER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-STG-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes & Insurance	67,193	-	3,890 (5) 6,267 (10)	57,036
Legal Fees	11,742	-	11,742 (10)	-
Cost of Capital	273,231	-	9,786 (1) 1,810 (2) 15,644 (10) <u>1,331 (13)</u>	244,660
Subtotal	2,833,924	53,209	306,767	2,580,366
Ancillary	123,812	295 (6) 1,195 (7)	-	125,302
Non-Allowable	1,129,995	9,786 (1) 1,810 (2) 4,776 (4) 343 (6) 8,258 (7) 5,830 (9) 195,139 (10) 28,691 (11) <u>1,331 (13)</u>	9,796 (12)	1,376,163
Total Operating Expenses	<u>\$4,087,731</u>	<u>\$310,663</u>	<u>\$316,563</u>	<u>\$4,081,831</u>
Total Patient Days	<u>31,260</u>	<u>-</u>	<u>-</u>	<u>31,260</u>

TOTAL BEDS 88

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-STG-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$ 41,349	
	Nonallowable	9,786	
	Fixed Assets		\$ 30,071
	Accumulated Depreciation		11,278
	Cost of Capital		9,786
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	1,810	
	Cost of Capital		1,810
	To remove amortization expense related to organization and loan cost State Plan, Attachment 4.19D		
3	Administration	6,298	
	Medical Records	4,054	
	Medical Supplies	3,219	
	Nursing		11,580
	Restorative		1,588
	Dietary		180
	Maintenance		223
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
4	Medical Supplies	16,328	
	Nonallowable	4,776	
	Dietary		21,104
	To reclassify expense to the proper cost center and disallow expense due to lack of documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Accrued Property Taxes	4,367	
	Retained Earnings		477
	Taxes and Insurance		3,890
	To adjust property taxes and related accrual HIM-15-1, Sections 2302.1 and 2304		

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-STG-J8

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Administration	37	
	Special Services	1,960	
	Ancillary	295	
	Nonallowable	343	
	Maintenance		343
	Medical Supplies		2,292
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		
7	Retained Earnings	2,010	
	Ancillary	1,195	
	Nonallowable	8,258	
	Dietary		537
	Maintenance		4,021
	Administration		203
	Medical Supplies		6,702
	To properly charge expense applicable to the prior period, reclassify expense to the proper cost center, and disallow expense due to lack of documentation		
	HIM-15-1, Sections 2302.1 and 2304		
	DH&HS Expense Crosswalk		
8	Administration	3,407	
	Nursing		3,407
	To reclassify expense to the proper cost center		
	DH&HS Expense Crosswalk		
9	Nonallowable	5,830	
	Nursing		4,699
	Restorative		257
	Dietary		568
	Maintenance		121
	Administration		7
	Medical Records		81
	Special Services		97
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		

ST. GEORGE HEALTH CARE CENTER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-STG-J8

ADJUSTMENT			
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nursing	5,899	
	Restorative	34	
	Dietary	1,705	
	Medical Records	472	
	Nonallowable	195,139	
	Maintenance		15,423
	Administration		154,038
	Legal		11,742
	Utilities		135
	Taxes and Insurance		6,267
	Cost of Capital		15,644
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
11	Nonallowable	28,691	
	Medical Supplies		27,112
	Special Services		1,579
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
12	Special Services	9,796	
	Nonallowable		9,796
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
13	Nonallowable	1,331	
	Cost of Capital		1,331
	To adjust capital return State Plan, Attachment 4.19D		
		\$358,389	\$358,389
	TOTAL ADJUSTMENTS	\$358,389	\$358,389

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

ST. GEORGE HEALTH CARE CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-STG-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>88</u>
Deemed Asset Value	3,091,440
Improvements Since 1981	400,368
Accumulated Depreciation at 9/30/98	<u>(847,337)</u>
Deemed Depreciated Value	2,644,471
Market Rate of Return	<u>.063</u>
Total Annual Return	166,602
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	166,602
Depreciation Expense	77,790
Amortization Expense	280
Capital Related Income Offsets	(12)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	244,660
Total Patient Days (Actual Days)	<u>31,260</u>
Cost of Capital Per Diem	\$ <u><u>7.83</u></u>

ST. GEORGE HEALTH CARE CENTER, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-STG-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.56</u>
Reimbursable Cost of Capital Per Diem	\$ 7.83
Cost of Capital Per Diem	<u>7.83</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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